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UNCLAS SECTION 01 OF 03 WELLINGTON 000297

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SUBJECT: NZ'S EMISSIONS TRADING SCHEME LEGISLATION PASSES
PARLIAMENT

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Reftel: 07 Wellington 695

¶1. (SBU) Summary. With the support of the Green Party and New Zealand First, the Labour Party pushed through its controversial Emissions Trading Scheme (ETS) bill on September 10 by a vote of 63 to 57. National opposed the draft legislation and has promised to amend it if elected to lead the government. New Zealander politicians, media analysts and business leaders continue to debate how much the ETS will cost average consumers. The legislation is a personal and professional triumph for Prime Minister Helen Clark and follows her promise to make New Zealand a carbon neutral country and halve emissions by 2040, a commitment that the business community (and the opposition National Party) maintains is too ambitious for a small country and will cost New Zealand jobs and economic competitiveness. End Summary.

Parliament Passes Much-Debated ETS Bill

¶2. (U) Following several years of study and analysis, the GNZ in April 2007 introduced the Climate Change (Emissions Trading and Renewable Preference) Bill, popularly known as the Emissions Trading Scheme (ETS) bill, to amend the Climate Change Response Act of 2002 and to introduce a greenhouse gas Emissions Trading Scheme in New Zealand. The ETS will impose a phased-in program of emissions limits in the form of tradable carbon units beginning in 2008. Forestry would be the first sector to come under the ETS along with transport fuel in 2009, electricity generation in 2010, and agriculture in 2013 - although all industries can voluntarily begin to reduce their emissions before their entry dates. The draft legislation includes a review clause, which dictates that the GNZ will compare New Zealand's climate change targets with its major trading partners every five years so as not to place New Zealand at a disadvantageous position.

The Price Tag for Being Clean and Green

¶3. (U) The proposed cost of the ETS to consumers and business is the topic of continuing controversy. Minister of Climate Change David Parker initially suggested that the cost of an ETS to NZ consumers would be relatively modest. He estimated a loss of economic growth to New Zealand at roughly 1% of the expected GDP growth over the next five years, or approximately NZD 537 million to cover New Zealand's Kyoto commitments. On a per capita basis, the GNZ projected NZD 50 per year, which Parker said was worth the cost in order to combat climate change effectively. Prime Minister Helen Clark packaged the proposed ETS as a hallmark of New Zealand's commitment to be a world leader in environmental causes.

14. (U) Critics of the government's plan placed the cost at NZD 1.2 billion, and Business New Zealand, which represents the interests of New Zealand business sector, estimated the price tag as high as NZD 3.5 billion and accused the government of hiding the true costs from voters so as not to ruin Labour's electoral chances. The Treasury Department then adjusted its estimate to NZD 717 million, claiming that the Reserve Bank's initial calculations assumed carbon prices at NZD 21 per tonne and had not taken into account the rapid price rise in fuel in 2008. More recently, Treasury again adjusted its estimate to NZD 1 billion, fueling criticism that the GNZ is hiding the true costs.

15. (U) The New Zealand Institute, a leading NZ think tank, argued that small farmers and small-to-medium sized businesses would not be able to pass on their higher costs to consumers and therefore be less competitive. The Institute stated that New Zealand would be better placed to be a "fast follower," rather than a world leader on climate change issues and urged that New Zealand change its targets and slow its ETS phase-ins. New Zealand business analysts worry that the ETS will force NZ's remaining industrial businesses to move to countries unfettered by regulatory constraints on carbon emissions, eliminating more jobs in New Zealand. They say that New Zealand will put its economic competitiveness at risk and even by meeting its Kyoto obligations, the net impact on world greenhouse gas emissions will be negligible.

National Will Amend ETS if Elected

16. (SBU) The opposition National Party strongly opposed the ETS legislation from the start and promised to amend the scheme if elected to lead the next government. Despite professing support for the concept of an ETS, National's Climate Change Spokesman Dr Nick Smith asserted that the ETS legislation was inherently flawed and unnecessarily rushed into law. Said Smith of the bill, "It is

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riddled with errors that will cost New Zealand households and businesses dearly." Smith believes that more time is needed to fully examine the full complexities and economic implications of the legislation. National is worried the ETS will cause job losses and force heavy industry overseas. If it leads the next government, as polling suggests it has a good chance of doing, National will seek to change the scheme to a target of a 50 per cent reduction in New Zealand's emissions by 2050. Its overall position is to establish an ETS that Smith believes will better "balance New Zealand's responsibility to reduce greenhouse gas emissions with the need to grow the economy." National also wants to move slower on establishing an ETS to ensure that New Zealand's ETS complements whatever system Australia settles on due to strong linkages between the two economies.

Where the other Parties Stand on the ETS

17. (U) The Government relied on the support of two governing coalition parties, the Green Party and New Zealand First (NZ First), to pass the ETS legislation. However, this support was not easily granted. At one time, the Greens came close to pulling its support for the bill because it believed the Government has backslid on fuel and industry emissions. It also had concerns about the economic impact of increased energy costs on lower income households. After canvassing public opinion, the Greens eventually decided to vote in favor of the bill, but with reservations. Although wanting a tough regime, the Greens decided it was better to have a scheme in place than not have one at all. In return for its support, the Greens managed to secure a NZD 1 billion fund to be spent over several years on insulating homes and improving heating for primarily low-income families.

18. (U) NZ First also had initial concerns about how the scheme would impact lower income households. These were, however, sufficiently allayed by the funding concession secured by the Greens. Labour was particularly relieved to get the support of NZ First given that its leader, Winston Peters, was asked by PM Clark on August 29 to stand down from his ministerial portfolios pending investigation over fraud allegations involving his party. However, fears that this would result in dissolution of the relationship between the parties were not realised and the NZ First vote for the bill provided the

Government with enough parliamentary support to see the ETS bill passed into law.

¶9. (SBU) The Maori Party did not support the ETS bill because it is opposed to "paying the polluters and rewarding the corporate lobbyists with huge exemptions." The party also wants Parliament to review that impact the ETS will have on Maori assets (particularly forests), an issue it believes was not properly addressed during debate on the bill. The right-wing ACT Party asserts that the Government's ETS is a waste of time and money and should be discarded.

Views Differ on Australian Model

¶10. (U) As New Zealand debated implementation of scheme to curb emissions, Australia is also going through a similar process. At a political level in New Zealand, views diverge over the treatment and relative merits of the Australian government's proposal for its Carbon Pollution Reduction scheme. The New Zealand Government sees the proposed Australian scheme as a buttress to its own scheme, emphasizing shared implementation timeframes and fundamental principles. It acknowledged that the Australian scheme has some different design features from the New Zealand scheme, reflected in the different economies and emissions profiles. However, the Government underscored that these differences should not bar the two schemes linking up in places, if deemed necessary. The National Party wants to align as closely as possible with the Australian scheme, particularly in areas of compliance and tradability. It believes that New Zealand should wait until the Australians have set up its scheme to ensure greater compatibility.

¶11. (SBU) The Green Party was opposed to New Zealand using the Australia's proposed emissions trading scheme as a model as it believes Australia does not go far enough to address climate change.

It also claimed that the Australian government has been corrupted by the influence of industry happy to address climate change as long the costs are within acceptable limits.

The Role of Agriculture in the Scheme

¶12. (U) Agriculture is a significant component of the New Zealand economy accounting for more than 50 percent of merchandise exports. New Zealand exports approximately 80 percent of its agricultural production, which makes its greenhouse gas emissions profile unique among developed countries. Agriculture accounts for over half of New Zealand's greenhouse gas emissions (primarily in the form of methane and nitrous oxide from livestock) compared to an average of 10 to 15 percent in other developed countries.

¶13. (SBU) As New Zealand is 'just one big farm' from an export

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earnings standpoint, the ETS has been controversial and the proposed scheme has received a barrage of criticism from the agricultural sector. Originally slated to be brought into the scheme in 2013, agriculture is now expected to be fully incorporated in 2018. Many decisions about the ETS for agriculture have yet to be made, including how to measure, what to measure and the point of obligation for paying. However, the costs to be borne by agriculture are significant with the sheep, beef and dairy industries being the hardest hit and it is questionable whether or not consumers will be willing to pay more for carbon friendly food from New Zealand.

¶14. (SBU) New Zealand is one of the only countries, if not the only, to fully include agriculture in its ETS scheme. Currently, very limited technology or strategies are available to significantly mitigate greenhouse gas emissions from livestock enterprises. Farmers are faced with having to buy an increasing number of carbon credits from 2013 unless they have or make a significant investment in forestry. Many believe that, unless other countries follow suit, implementation of the ETS will result in higher farm costs and put New Zealand agriculture at a competitive disadvantage with its competitors. The policy risks are considerable for New Zealand agriculture.

Comment

¶15. (SBU) Passage of the ETS bill was both a policy and personal imperative for Clark. It serves as a policy centerpiece for her Government's much touted sustainability agenda, which also includes making New Zealand a carbon neutral country and halving emissions by

¶2040. It is also symbolic of her own emergent image as a leader on climate change in New Zealand and abroad. In January 2008, Clark was awarded the United Nations Environment Programme Champions of the Earth award in recognition of her government's promotion of sustainability initiatives. Failure to pass the ETS bill would have proven embarrassing for her in light of this honor. Since the passage of the ETS bill, Clark has announced that further sustainability initiatives will follow. She will also campaign on the successful passage of bill ahead of the November 8 election. Clark will likely draw on National's opposition to the ETS legislation to say a vote for Labour means a vote for climate change leadership and action. End Comment.
McCormick